

DATA LINE

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To the Shareholders :

1972 was a good year for your Company.

This **Annual Report**, for the year ended December 31, 1972, reflects the achievements of interim goals which ...

Directors:

George S. Dembroski
Director, Dominion Securities Corporation Limited

John F. Galipeau
Manager, National Computing Services

George T. Lake
*Director of the Computing Centre,
The University of Western Ontario*

Joseph C. Paradi
President, Dataline Systems Limited

John A. Wright
*Partner, Campbell, Godfrey & Lewtas,
Barristers & Solicitors*

Officers:

Joseph C. Paradi
President, Treasurer

Andrew C. Hay
Vice President, Marketing

John A. Wright
Secretary

Alain C. B. Duncan
Controller

Brian M. Samuels
Manager, Software and Systems

Donald R. Kennedy
Manager, Hardware Services

Auditors:

Clarkson, Gordon & Co.

Registrar and Transfer Agent:

Crown Trust Company,
Toronto, Ottawa, Montreal

40 St. Clair Avenue West, Toronto, Ontario

287 MacLaren Street, Ottawa, Ontario

1440 St. Catherine Street West, Montreal, Quebec

505 6th Street S.W., Calgary, Alberta

ultimately will lead to the fulfilment of our promise of profitability.

The Highlights

1	Expansion to national service – page 2
2	Second system fully operational – page 2
3	Favourable financing of our second computer system – page 2
4	Sales up 45% from 1971 – page 2
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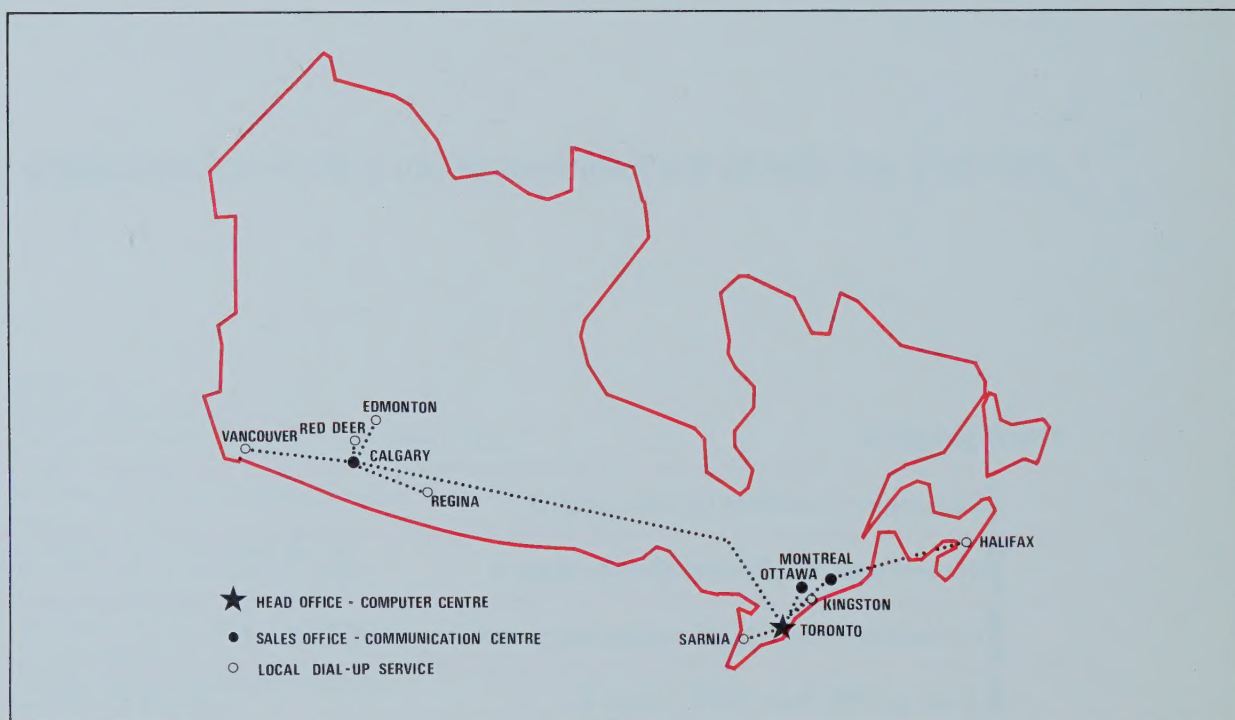
DATALINE - A National Service Company

We are convinced that the future of data processing services rests in communication based computer systems. During 1972 your company took a major step to respond to the demands of the marketplace for a time sharing service available from coast to coast. Many of our client accounts are large national corporations. In order for Dataline to service their time sharing needs, it became necessary to expand our communications network from Halifax to Vancouver. In addition, the expansion of this network has already been material in securing a substantial new account for Dataline in the remote access business data processing market. The map of Canada below indicates the locations of our communication centres and marketing offices.

of this system on favourable terms, and therefore stood firm in insisting that no equity component be offered in order to obtain this long term financing. Accordingly, after lengthy negotiations, we are very pleased to report the completion of the refinancing of our second computer system by means of a bank loan. The fact that a leading Canadian chartered bank lent its support to our young and progressive company is a source of great pleasure to all of us.

4 Sales Increase

Once again your company achieved a considerable increase in sales for fiscal 1972. Gross sales amounted to \$1,627,000, up by 45% from 1971. This significant achievement reflects our concentrated effort in building and supporting our

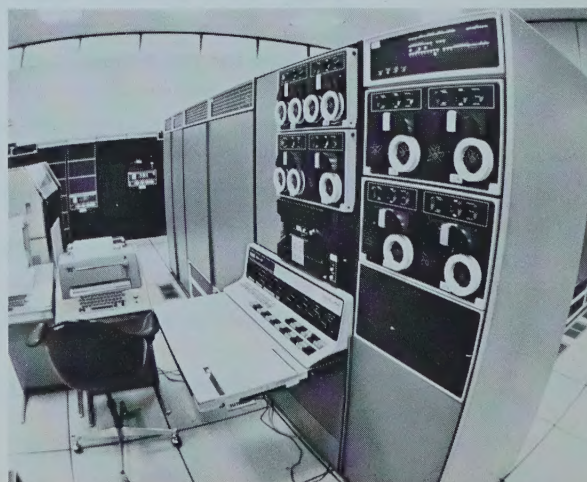


2 Second System Fully Operational

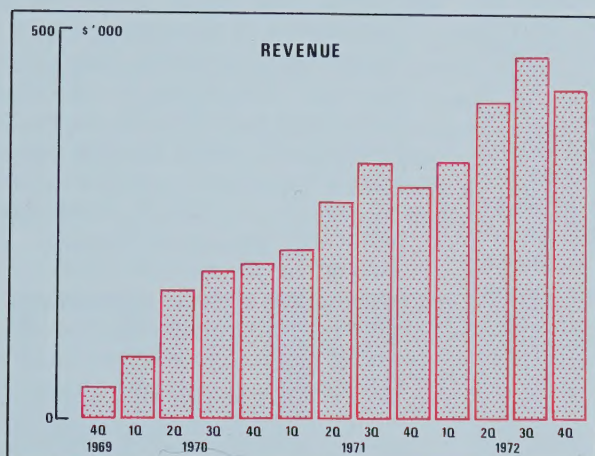
As mentioned in our last Annual Report, during 1971 your company acquired, installed and made operational its second computer system. The expansion of our computing capacity significantly increased our ability to fulfil the increased service demands placed on us by our customers and has resulted in a rapid build-up of load on the second system. If our sales objectives for 1973 are met, additional operational hardware may be required towards the latter part of 1973, or early 1974.

3 Long Term Financing for Second System

We indicated in our six month report that long term financing of our second computer system was under negotiation. Management has always felt that it should be possible to finance the acquisition

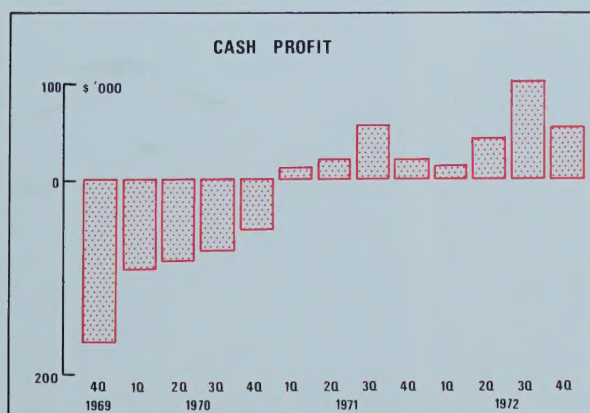


marketing force. It is our firm belief that your company's success is tied directly to the efforts expended in marketing its services and products. Our continued dedication to this task in the coming years can only result in future successes. To this end, we are continuing our training and development of new marketing representatives to fulfil our future needs. This will ensure that we can maintain our leadership in the time sharing service segment of our industry.



5 Cash Profit Up

In keeping with our previous performance, the year 1972 showed satisfactory progress in our cash profit picture as well. We increased our cash profits to \$209,000, an increase of 120% over fiscal 1971. We fully expect that if our sales and services growth continues and we are able to maintain expenses at a reasonable level this year, operating profits will be attained in fiscal 1973.



6 Losses Down

Although the overall loss for the 1972 year decreased only slightly from that reported for 1971, the operating results for the last half of 1972 reflect

a significant improvement over the last half of 1971. A comparison of results for the first and second halves of 1971 and 1972 is set out below.

Comparison of income and expenses for the years 1971 and 1972

	First Half		Second Half	
	1972	1971	1972	1971
Income:				
Computer time and related changes	\$738,000	\$498,000	\$889,000	\$628,000
Expenses:				
General, Administration	630,000	471,000	687,000	565,000
Interest, Expense	54,000		47,000	
Depreciation and Amortization	223,000	139,000	222,000	195,000
	907,000	610,000	956,000	760,000
Less Interest	1,000	4,000		2,000
	906,000	606,000	956,000	758,000
Loss for six months	\$168,000	\$108,000	\$ 67,000	\$130,000

As explained in the 1972 six month report, the comparison for the first halves includes the impact of higher depreciation due to the second computer system and increased costs resulting from our expansion to a national company.

Losses in the second half of 1972 decreased considerably to \$67,000, a reduction of 48% from 1971. One of our major customers had an extended strike during the second half of 1972 and this caused an estimated revenue loss of approximately \$50,000 to \$70,000. An operating profit in the second half may well have been achieved had the strike been averted. The trend of increasing cash profits has been consistent throughout the second half of fiscal 1972, and this trend should continue through 1973 to reach our current objectives.

7 Working Capital Improved

The company's working capital position at December 31, 1972 improved by some \$688,000 over the position at the end of 1971, primarily as a result of the long term financing of the second computer system and the cash profits generated during the year. Current assets at December 31, 1972 of some \$427,000 are well in excess of current liabilities when we exclude the current bank operating loan of \$250,000 and deferred income of \$48,000. Your company's working capital position will continue to improve as cash profits are earned.

8 New Markets and Competition

Presently, there are some 300-500 firms in the data processing industry in Canada; of these only some two dozen stand out as major entities that will dominate the field in the coming years. Among

these we are proud to include Dataline. We believe that in terms of gross monthly billings attributed to interactive time sharing, Dataline is third in the marketplace after General Electric and IBM.

Most of the computer service companies have been concentrating on developing their own unique service offerings. For example, we have just spent some two and a half years of research, system design and programming, to produce an important new software package named BICAR, (for Billing Inventory Control Accounts Receivable). This package has already recorded its first major sale for 1973. BICAR provides a new method of data entry, sales order production, invoice production, inventory control, sales analysis, sales reporting and associated services. It will provide the solution to the problem of operating from geographically scattered locations, a situation faced by many Canadian corporations.

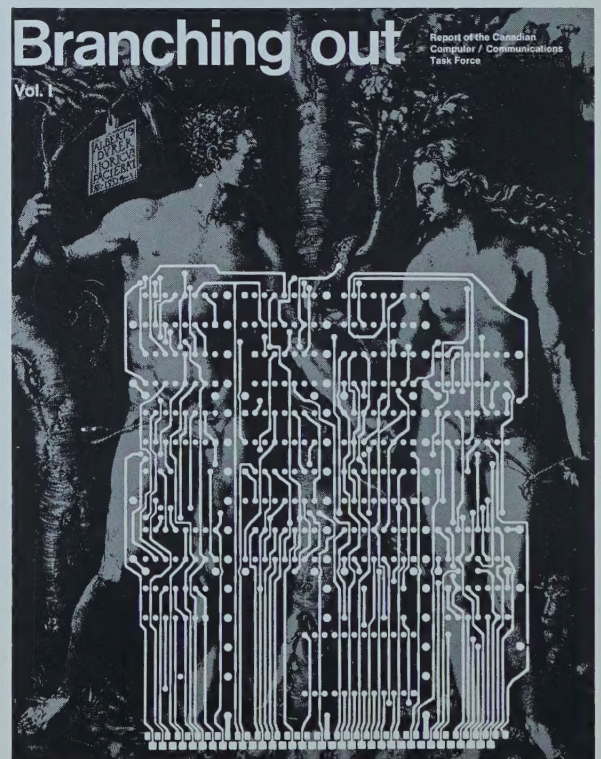


Other examples of specialization by our industry include specialized software packages, special equipment, unique operating systems, customer education and user support. The choices now available to potential customers are all sufficiently different so that each company can carve out a significant segment of the entire market for itself and dominate that portion to some extent. While we are continuing to provide first class service in our traditional area of scientific and engineering applications, we have recently developed significant expertise in other areas as well, such as, in econometrics, whereby large scale data banks are utilized to make information available to our users. We are also in the process of expanding our

marketing effort in on-line COBOL—an area in which Dataline has been pioneering for the last year. We forecast that our emphasis on these new markets will yield a high return on investment of time, effort and people, and should obtain the most gratifying results in the form of steady growth and future profitability.

9 Government Action

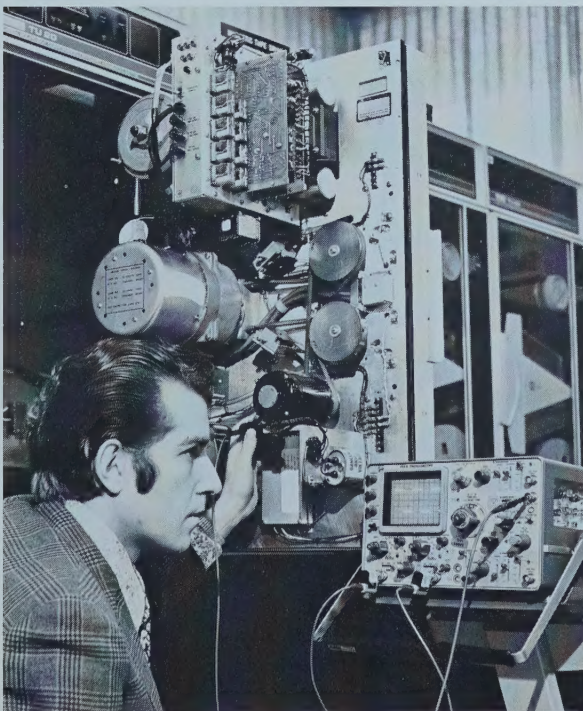
During 1972 the Canadian Computer Communications Task Force, under the auspices of the Department of Communications of the Federal Government, published a report entitled "Branching Out." The terms of reference for this Task Force were to define the current status of the industry and to collect the data necessary to provide a basis for legislation and long range planning for our industry in order to benefit both the business sector and the Canadian public. The report contains some 39 recommendations to government, relating to, among other things, the extent of government regulation in the industry, data networks, tariffs, Canadian control, research funding and purchasing of services by the Federal Government. Management at Dataline feels that the recommendations are, on the whole, favourable to the future growth of our industry and should, if implemented, ensure that the computer services industry will continue to benefit Canadians, perhaps in a way no other new industry has ever done in the past.



It is most satisfying for us to see that the aims and objectives of the Task Force's report coincide so well with the way we visualize the future of our industry, and our company in particular.

10 Hardware Service Organization

Another important step taken by your company in 1972 was the phasing out of the hardware maintenance arrangements with our equipment manufacturer and the introduction of our own hardware experts to maintain our equipment. Reliability of our computing systems is an indispensable ingredient of our business. After careful evaluation and consideration, we have come to the conclusion that by establishing our own expertise in this area we will be in a better position to control future maintenance costs, especially as our installation grows and, in addition, to benefit from enhanced system reliability.



11 Professional Personnel

While there has been a great deal of discussion about the tens of millions of dollars of installed computer hardware in our industry, our business, nevertheless, continues to be a service industry—a consideration which at times is not given the emphasis it deserves. The success or failure of any firm rests on the quality of its people. It has been our belief from the outset that our competitive edge will always be heavily dependent upon our ability to train and motivate our professional staff to do the tasks and carry out the assignments for which our customers are willing to pay. It is with pleasure that we review the past three or four years spent in developing such a staff. While by normal standards Dataline's staff is young in years, our experience in the data services industry places us among the veterans. We feel that we have developed a unique marketing, operating and service concept which has contributed greatly to our success in the past. We would like to take this opportunity to thank all of our staff who have played a substantial role in the growth and continued success of your company, and on whom we will be relying in the future to continue and improve upon this trend, and hence reach our objectives.

12 Expansion

To date, Dataline has grown essentially from within. Our acquisition of more hardware, telecommunication lines and growth in people has resulted in a marked increase in penetration of the time sharing marketplace. It is foreseeable, however, that in the coming years, your company will be considering expansion into other segments of the computer service industry. To some extent, this expansion can come from within. However, it may be advantageous for your company to acquire an interest in firms presently operating in these areas. While there are no firm plans or current negotiations under way to implement such plans, we feel that we must be alert to take advantage of any such opportunities.

In closing, we would like to take this opportunity to thank you, our shareholders, for your patience and support during this difficult period of growth. We are confident of your continued support in the years that lie ahead—years during which your investment and faith in our company will, we trust, begin to bear fruit.

On behalf of the Board of Directors



J. C. Paradi,
President.

Balance Sheet

December 31, 1972
(with comparative figures at December 31, 1971)

ASSETS

	<u>1972</u>	<u>1971</u>
Current:		
Cash	\$ 2,943	\$ 67,755
Guaranteed investment certificates, at cost plus accrued interest		85,146
Accounts receivable (note 1)	417,509	173,623
Prepaid expenses	6,463	5,345
	<u>426,915</u>	<u>331,869</u>
Fixed, at cost (notes 1 and 2):		
Computers and ancillary equipment	2,872,866	2,873,958
Office furniture and fixtures	55,110	50,003
	<u>2,927,976</u>	<u>2,923,961</u>
Less accumulated depreciation	1,060,613	633,123
	<u>1,867,363</u>	<u>2,290,838</u>
Leasehold improvements, less amortization	108,446	123,795
	<u>1,975,809</u>	<u>2,414,633</u>
	<u>\$2,402,724</u>	<u>\$2,746,502</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current:		
Bank loans (note 1)	\$ 430,000	
Accounts payable and accrued charges	209,523	\$ 118,807
Due on purchase of second computer system		1,113,730
Deferred income	48,000	48,000
	<u>687,523</u>	<u>1,280,537</u>
Long-term:		
Term bank loan (note 1)	700,000	
Less current portion included with bank loans above	180,000	
	<u>520,000</u>	
Deferred income	4,692	52,692
	<u>524,692</u>	<u>52,692</u>
Shareholders' equity:		
Capital stock (note 3) –		
Authorized:		
1,000,000 common shares without par value		
Issued:		
404,200 shares	2,735,080	2,722,480
Deficit	1,544,571	1,309,207
	<u>1,190,509</u>	<u>1,413,273</u>
	<u>\$2,402,724</u>	<u>\$2,746,502</u>

On behalf of the Board:

J. A. Wright, Director

J. C. Paradi, Director

(See accompanying notes)

Statement of Income and Deficit

For the Year Ended December 31, 1972

(with comparative figures for 1971)

	<u>1972</u>	<u>1971</u>
Income :		
Computer time and related charges	<u>\$1,626,989</u>	<u>\$1,125,576</u>
Expenses :		
General, administrative and operating expenses	1,317,457	999,019
Interest expense	101,238	36,526
Depreciation and amortization	<u>444,287</u>	<u>333,847</u>
	<u>1,862,982</u>	<u>1,369,392</u>
Less interest earned	<u>629</u>	<u>5,689</u>
	<u>1,862,353</u>	<u>1,363,703</u>
Loss for the year (note 7)	235,364	238,127
Deficit, beginning of year	1,309,207	1,071,080
Deficit, end of year	<u>\$1,544,571</u>	<u>\$1,309,207</u>

(See accompanying notes)

Statement of Source and Application of Funds

For the Year Ended December 31, 1972

(with comparative figures for 1971)

	<u>1972</u>	<u>1971</u>
Source of funds :		
Operations –		
Loss for the year	\$ 235,364	\$ 238,127
Less depreciation and amortization	<u>444,287</u>	<u>333,847</u>
	208,923	95,720
Long-term bank loan (note 1)	520,000	
Issue of common shares (note 3)	<u>12,600</u>	
	<u>741,523</u>	<u>95,720</u>
Application of funds :		
Purchase of fixed assets (net in 1972 of \$18,935 recovery of duty paid on computer purchased in 1971)	5,463	1,170,843
Reduction (increase) in deferred income – long-term	<u>48,000</u>	<u>(52,692)</u>
	<u>53,463</u>	<u>1,118,151</u>
Increase (decrease) in working capital during the year	<u>\$ 688,060</u>	<u>\$(1,022,431)</u>

(See accompanying notes)

Notes to Financial Statements

December 31, 1972

1. Bank loans

Prior to the year-end, the company arranged for a term bank loan of \$700,000, the proceeds of which were used to retire the balance due to the supplier of its second computer system purchased in 1971.

This term loan is secured by a 9% demand debenture which provides for a first fixed and specific charge on the fixed assets and a first floating charge on all other assets, property and undertaking of the company. The debenture also contains certain restrictions as to the purchase of fixed assets, the payment of dividends and reductions of paid-up capital stock. Although the loan is evidenced by a demand note, arrangements have been made with the bank for monthly repayments aggregating \$180,000 in 1973, \$240,000 in 1974 and the balance of \$280,000 in 1975. Accordingly, an amount of \$520,000 has been reflected as a long term liability in the accompanying balance sheet.

In addition, at December 31, 1972 the company was indebted to its bankers for a current operating loan of \$250,000 against which accounts receivable have been pledged as collateral.

2. Depreciation

Depreciation has been provided on a straight-line basis at rates designed to amortize the cost of depreciable assets over their estimated useful lives, which, in the case of the computers and the major portion of their ancillary equipment is estimated to be seven years.

3. Capital stock

In 1969 an option was granted to a director and senior officer of the company to purchase 10,000 common shares at a price of \$13.50 per share. The option is for a term of five years and

may be exercised at any time or from time to time during the last three years of its term as to all or any part of the optioned shares.

During the year, certain employees of the company exercised options to purchase 4,200 common shares for cash at a price of \$3.00 per share under the terms of the employees' incentive stock option plan. Unexercised options for 300 shares expired on July 31, 1972. A further 15,800 unissued common shares are reserved for possible future employee options.

4. Income taxes

The company has losses of approximately \$1,545,000 available for carry-forward to reduce future years' income tax provisions.

5. Commitments

The company has leased premises for up to six years at an annual rental of \$66,125.

6. Remuneration of directors and senior officers

The aggregate remuneration of directors and senior officers, as such are defined under the requirements of The Business Corporations Act, 1970, was \$112,023 which amount includes remuneration paid or payable to five full-time employees.

7. Loss per share

The loss per share based on the weighted average number of shares outstanding during the year was \$.59 in 1972 and \$.60 in 1971.

8. Subsequent event

The company has commenced negotiations for the acquisition or lease of a third computer system for possible commercial use in late 1973. These negotiations are all subject to the finalization of certain conditions and to date the company has not incurred any contractual obligation with respect to such system.

Auditors' Report

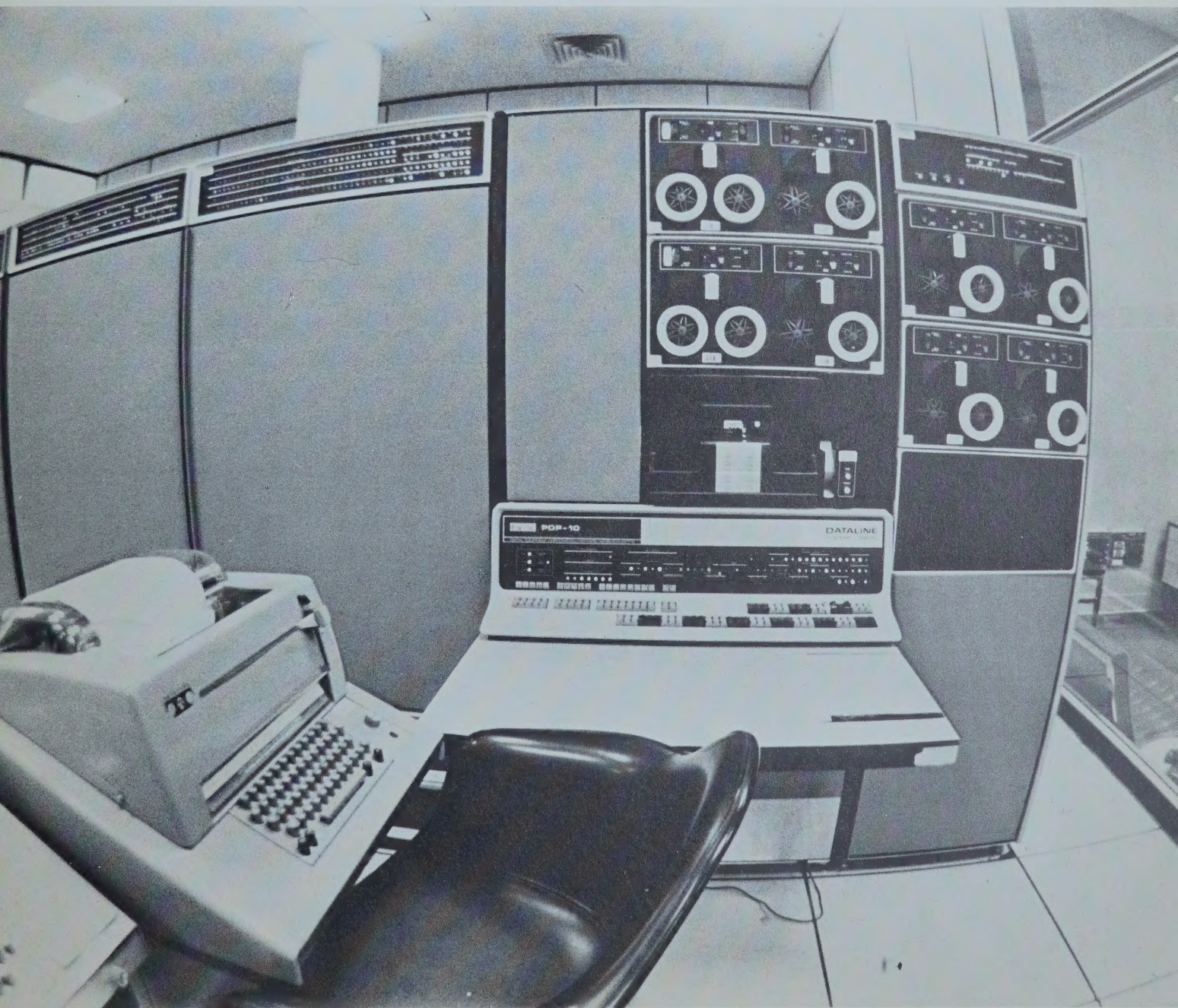
To the Shareholders of
Dataline Systems Limited:

We have examined the balance sheet of Dataline Systems Limited as at December 31, 1972 and the statements of income and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

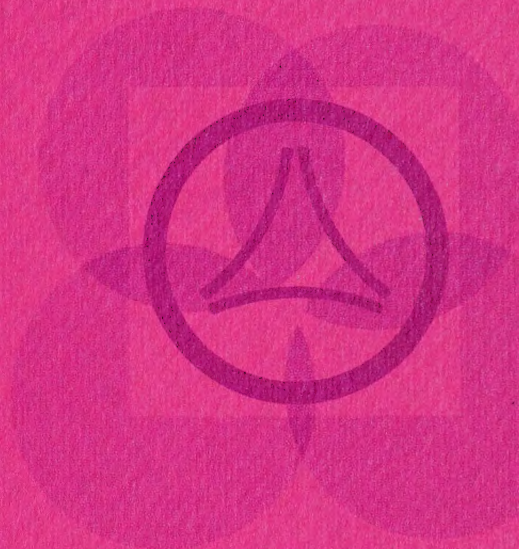
In our opinion these financial statements present fairly the financial position of the company as at December 31, 1972 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 30, 1973.

Clackson, Gordon & Co.
Chartered Accountants



AR44



DATALINE

Interim Report
for the six months ended
June 30, 1972

To the Shareholders of Dataline Systems Limited

I am pleased to report the results for the six months ended June 30, 1972.

Operations

The cash break-even status reached a year ago has been maintained and increased in spite of the increased costs due to the operation of two independent computer systems during this period. The cash profit for this period was \$54,531 as compared to \$31,087 for the comparable six months ended June 30, 1971, an increase of 75%.

Loss for the period increased to \$168,275 as compared to \$107,795, principally due to the higher depreciation costs due to the second system. Also, significant expansion of our operations has taken place as explained below. The cost of this expansion has also contributed to the increased loss. In spite of these expansions in our business activities, our cash profits were maintained, indeed, increased.

As a result of the improvements in sales during the period, working capital increased by a further \$33,663.

Financial

As you are aware, your company purchased a second computer system in the 1971 fiscal year. In our 1971 annual report we indicated that the purchase price of the equipment will be funded out on a long term basis in this fiscal year. At the present time, negotiations are continuing to this end

and we will report on the results of these negotiations, when completed, in a special report to the shareholders.

Outlook

As reported previously, Dataline has opened a full time sales office in Montreal which has progressed very well and has justified our confidence in this fast growing market. During this period we have also opened a sales office in Calgary and installed communications facilities to serve Calgary and the Western provinces. The new communications installations includes local service in Sarnia, Ontario and Dartmouth, Nova Scotia. In addition to the above, Dataline now provides local services in Edmonton, Toronto, Ottawa, Montreal and the urban areas around these cities. This expansion of facilities was necessary, to provide for the expanded needs of our clients with coast-to-coast operations, and to enable us to provide services to clients in any of these locations.

It is expected that revenues will continue to increase for the balance of the 1972 fiscal year. Results for the month of July and the first half of August indicate that our continued increase in sales will be maintained.

We fully expect to continue to increase our market penetration and to further strengthen our position in the Computer Services Industry.

J. C. Paradi
President

August 14, 1972

DATALINE SYSTEMS LIMITED

(Incorporated under the laws of Ontario)

Statement of Income and Expenses

For the six months ended June 30, 1972

(with comparative figures for the six months ended June 30, 1971)

(subject to audit and year-end adjustment)

	1972	1971
Income:		
Computer time and related charges	\$ 738,181	\$ 498,019
Expenses:		
General, administrative and operating expenses	630,221	470,945
Interest expense	54,059	
Depreciation and amortization	222,806	138,882
	907,086	609,827
Less interest earned	630	4,013
	906,456	605,814
Loss for the six months	\$ 168,275	\$ 107,795

Source and Application of Funds

For the six months ended June 30, 1972

(with comparative figures for the six months ended June 30, 1971)

(subject to audit and year-end adjustment)

	1972	1971
Source of funds:		
Operations —		
Loss for the six months	\$(168,275)	\$(107,795)
Less depreciation and amortization	222,806	138,882
	54,531	31,087
Recovery of duty paid on computer purchase in 1971	18,935	
Deferred computer revenue		86,000
	73,466	117,087
Application of funds:		
Purchase of fixed assets	15,803	13,101
Reduction in deferred computer revenue	24,000	
	39,803	13,101
Increase in working capital during the six months	\$ 33,663	\$ 103,986